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Approved by:

Dennis Voboril

U.S. Embassy, Jakarta

Prepared by:

Sugiarti Meylinah

Report Highlights:

CY 2008 Indonesian imports of non fat dry milk and whole milk powder are estimated to increase to 159,000 MT and 44,000 MT respectively due to continued economic growth, a stable political outlook, continued per capita consumption increase, growing health awareness among consumers, and production capacity expansion by some of the major Indonesian dairy producers. U.S. dairy exports to Indonesia are expected to reach another record level.

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I. SITUATION AND OUTLOOK

An Indonesian economy estimated to grow by 6 percent in 2009, combined with a stable political outlook, room for increased per capita consumption of milk, and growing awareness of the health benefits of dairy products among consumers will continue providing opportunities for the Indonesian milk processing industry to grow. Several producers are entering the industry and some of the major dairy manufacturers are expanding their capacity. Per capita consumption of milk will remain below consumption of neighboring countries because growth in domestic fresh milk production will remain limited because of several factors. Whole fresh milk is mixed with imported milk powders, with Oceania being the preferred supplier because of geography. Limited supplies in the region have offered expanded opportunities for U.S. milk powder exports to Indonesia. CY 2008 exports of U.S. non-fat dry milk and whey to Indonesia are estimated to set another record level.

PRODUCTION

In 2008, Indonesian fresh milk production is estimated to reach 1.2 million liters per day, equal to 48,000 MT, and continues to meet only 25 percent of domestic requirements. 2009 Indonesian fresh milk production is expected to increase to 1.275 million liters per day, which is equal to 51,000 MT. The increase is expected because of price incentives that encourage farm management to produce higher quality milk and government plans to import dairy cattle in 2009. Several fundamental problems hamper further improvements in Indonesian dairy cattle productivity including: limited farmer education, scarcity of forage, high price of dairy cattle feed, small farm size, scarcity of land with suitable elevation for dairy cattle farming, poor farm management practices, limited access to bank loans, lack of technology for milking and processing the fresh milk, and limited access to high-quality genetics.

Currently Indonesian fresh milk production is sourced from 320,000 dairy cattle located in the major fresh milk-producing areas in all three provinces on Java. Cows owned by small farmers that are members of local Dairy Cooperative Unions produce most of the milk. These coops collect the milk and measure the bacteria content of fresh milk to determine the quality and price paid to the farmer. Average yield is between 10 and 12 liters per cow per day. Fresh milk quality is measured by the bacteria content (TPC=Total Plate Count), which ranges from 500,000-1 million tons. Indonesian fresh milk production with the lower bacteria content is combined with imported skim milk to produce full cream liquid milk and powdered milk. Fresh milk with higher bacteria content is processed into sweetened condensed milk.

In contrast to the small and economically inefficient fresh milk production by small farmers that are members of the unions, large and efficient companies dominate the dairy and dairy product manufacturing sectors. Several new producers are entering the market, and some of the major dairy product manufacturers are expanding their capacity. New brands of dairy products can be found in retail market shelves. Dairy and dairy product sales are expected to grow between 10 and 15 percent in 2009, which is larger than expected volume increases due to the higher margins following price decreases on the international market.

Semen for artificial insemination is produced by two agencies located in Malang, East Java and Lembang, West Java. There are only two independent dairy cattle farmers practicing artificial insemination using semen from the agencies and maintain a records system. Reportedly the Directorate General for Livestock within the Ministry of Agriculture (DGLS) has been conducting progeny tests since 2003 to produce prime quality dairy cattle genetics suitable for the Indonesian climate. DGLS plans to use the results of the test to begin a

dairy cattle recording system. There are four private companies providing 404 cows, another government institution in Central Java is providing 51 cows, and small holder farmers are providing a total of 5,794 cows. Semen from eight prime quality bulls is used to artificially inseminate these cows. The quality of the bull genetics will be determined by the fresh milk productivity of the offspring. Indonesia is trying to meet the international standards for progeny testing that requires the use of 10 participating cows for each bull. Funding has become a major problem to continue the project and the continuation of the program is questionable.

CONSUMPTION

Annual Indonesian per capita milk consumption currently stands at 8.5 kg per capita, relatively lower than other comparable ASEAN countries. Indonesian government efforts to maintain economic and political stability approaching both the presidential and house of representative elections in 2009, intensive advertising on printed and electronic media and in store promotions, and growing consumer awareness of the health benefits of drinking milk will increase overall Indonesian consumption volume of dairy and dairy products by 7.5 percent in 2009. Reportedly, GOI will increase the salary of civil servant by 12 percent next year. Almost 2 percent of the total Indonesian population works for the government, and 47.9 percent of all civil servants live on Java where most dairy and dairy products are consumed. However, consumption will not increase further with wage increases because the market normally reacts to the announced wage increase by increasing the price of staple commodities.

Three types of consumer products that continue to dominate the market are liquid ready-to-drink milk, sweetened condensed milk, and powdered milk with a total market share of 20 percent, 40 percent, and 40 percent respectively. Consumer's preference to consume more fresh and natural products will continue boosting the growth of the liquid ready-to-drink milk.

In line with the growing numbers of pizza outlets opened in almost all upper scale malls and shopping centers in the country including the opening of the first outlet of a prominent U.S. pizza brand, the prospects to promote the use of U.S. mozzarella cheese for pizza in the country is also growing.

On the other hand, consumers prefer butter imported from Australia because they are more familiar with the yellow color, taste, smell, and performance in bakery formulations. Increased sales of U.S. butter will require more consumer education.

TRADE

2008 Indonesian import of non-fat dry milk is estimated to increase eight percent to 159,000 MT compared to 147,000 MT in 2007. Supplies from Australia have not resumed to their previous levels so U.S. non-fat dry milk exports to Indonesia is estimated to set another record at 48,000 MT. U.S. market share is 30 percent while Oceania and the European Union market share combined is 60 percent due to long-standing relationships with sources and geographic proximity. Consumption will continue to increase and Indonesian imports of non-fat dry milk are forecast to increase to 172,000 MT in 2009. The supply from Oceania is expected to rebound next year unless U.S. non-fat dry milk is available at lower prices.

Indonesian 2008 imports of whole milk powder are estimated to increase to 44,000 MT due to major dairy manufacturer expansion. Imports of whole milk powder are forecast to increase to 45,000 MT in 2009. Indonesia imports only a small amount of its whole milk powder from the United States. Australia has the largest market share at 61 percent followed by New Zealand with a 16-percent market share.

A major Indonesia food manufacturer is reportedly looking at sourcing milk powder from Argentina. Brazil is also being considered as a source, but concerns over food and mouth disease make Brazilian products controversial.

Regular and intensive promotion of U.S. whey as an ingredient in cookies, noodles, and energy food and drink formulations conducted by the U.S. Dairy Export Council has resulted in increased exports of U.S. whey to Indonesia. 2008 export of U.S. whey to Indonesia is estimated to increase to 13,000 MT compared to 11,000 tons in 2007. Total 2008 Indonesian imports of whey are estimated to reach 43,000 MT.

STOCK

Some Indonesian importers are reportedly responding to the decreased price of dairy and dairy products on the international market by delaying purchases in the hopes prices will fall further. As a result, Indonesian dairy and dairy product stocks are estimated to drop to 7,000 MT.

PRICE

Product	Price	
	(IDR)	(USD)
Local fresh milk Grade 1 (farm gate – 12% TS, 0 – 250,000/ml TPC)	2,700/kg	282/ton
Local fresh milk Grade 2 (farm gate – 12%TS, 250,000 – 500,000/ml TPC)	2,500/kg	261/ton
Local fresh milk Grade 3 (farm gate – 12% TS, 500,000 – 1 million/ml TPC)	2,400/kg	250/ton

Source: Union of Dairy Cooperatives.

The Dairy Cooperatives Union reports that a major dairy manufacturer who buys local fresh milk from cooperatives pays a premium for better quality fresh milk and a bonus and feed if a farmer consistently provides fresh milk to the manufacturer.

POLICY

In response to the finding of melamine contaminated dairy and dairy products in China, the Indonesian Food and Drug Control Agency (BPOM) issued a press letter on September 24, 2008 followed by several revisions stating that Indonesia has stopped the imports of food products containing dairy from China effective September 18, 2008. It also instructed retail stores to remove products containing dairy imported from China off of their shelves. All of the food products will be tested for melamine and any found to contain melamine will be destroyed.

II. PSD TABLES

PSD: NON FAT DRY MILK

Dairy, Milk, Nonfat Dry Indonesia	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks	12	12	12	9	9	9			7
Production	0	0	0	0	0	0			0
Other Imports	147	147	147	154	161	159			172
Total Imports	147	147	147	154	161	159			172
Total Supply	159	159	159	163	170	168			179
Other Exports	5	5	5	5	5	5			5
Total Exports	5	5	5	5	5	5			5
Human Dom. Consumption	145	145	145	147	154	156			167
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	145	145	145	147	154	156			167
Total Use	150	150	150	152	159	161			172
Ending Stocks	9	9	9	11	11	7			7
Total Distribution	159	159	159	163	170	168			179
CY Imp. from U.S.	28	34	32	0	46	48			62
CY. Exp. to U.S.	0	0		0	0				

Note: Not official USDA data.

PSD: WHOLE MILK POWDER

Dairy, Dry Whole Milk Powder Indonesia	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks	5	5	5	4	4	5			6
Production	47	47	47	48	48	48			51
Other Imports	27	27	27	27	27	44			44
Total Imports	27	27	27	27	27	44			44
Total Supply	79	79	79	79	79	97			101
Other Exports	0	0	0	0	0	0			0
Total Exports	0	0	0	0	0	0			0
Human Dom. Consumption	75	75	74	75	75	91			95
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	75	75	74	75	75	91			95
Total Use	75	75	74	75	75	91			95
Ending Stocks	4	4	5	4	4	6			6
Total Distribution	79	79	79	79	79	97			101
CY Imp. from U.S.	0	0	0	0	0	0			0
CY. Exp. to U.S.	0	0	0	0	0	0			0

Note: Not official USDA data.

Note:

Exchange rate: Rp. 9,593/USD 1 as of October 8, 2008.

Related reports:

Indonesian Dairy Annual Report 2007

<http://www.fas.usda.gov/gainfiles/200708/146291903.pdf>